

37th Annual Cornell Real Estate Conference Recap

PANEL 1: THE CEO'S CHECK-IN

By Sam Berry

The theme of the 37th Annual Cornell Real Estate Conference was “20/20: Hindsight and Foresight” and featured panelists who discussed the unfolding challenges, disruptions, and opportunities in commercial real estate as 2020 approaches. Opening remarks by the Cornell Real Estate Council’s Chairman Paul Rubacha, Co-Founder and Principal of Ashley Capital, and Board Member Lynn Zuckerman Gray, Founder and CEO of Campus Scout, LLC, set the tone, after which Alan Rifkin, Managing Director at Lazard, introduced the first panel: “The CEO’s Check-In.” The panelists were Owen Thomas, CEO & Director of Boston Properties; Don Wood, President & CEO of Federal Realty Investment Trust; Ben Harris, CEO of Link Industrial Properties; and Doug Yearley, Chairman & CEO of Toll Brothers. The moderator for this panel was the benefactor and Advisory Board member of Cornell’s Baker Program in Real Estate, Richard Baker, Governor of Hudson’s Bay Company and an owner of National Realty & Development Corporation.

Baker initiated the dialogue by asking the panelists to identify the biggest trends that they are currently seeing within their particular asset class. As the CEO & Director of Boston Properties, a Class-A office building owner, manager, and developer, Thomas first identified that the current leading net absorbers of office space include almost exclusively

tech companies, life sciences companies, and co-working operators. This has shifted Boston Properties’ focus towards identifying office spaces where these companies want to locate. Thomas expanded on shared office space and co-working’s radical impact within the asset class and wrapped up his response by identifying the recent trend of capital flows into the office industry from private, not public, companies.

Wood, as President & CEO of Federal Realty Investment Trust, began with the observation that retail in this country is over-supplied. It is either over-developed or under-demolished, however one chooses to view it. Wood believes that the over-supply has provided a unique opportunity in the stronger U.S. markets. He identified these markets as locations where the currently booming industries are located. Northern California with its tech industry and Boston with its medical tech industry are two of Federal Realty Investment Trust’s current favorite markets, preferred over other areas in locations such as Philadelphia and Washington, D.C.

While Wood did not initially speak about e-commerce’s effect on retail, Harris of Blackstone’s U.S. industrial real estate platform, Link Properties, identified this as the number one trend within the industrial asset class. Harris’s focus is to truly understand how companies are moving products around the country and how that may change or adapt in the future. This means that while other asset classes may focus on rent differentials over location, he wants properties



Figure 1. From left to right: Alan Rifkin (CALS '88), Doug Weill (SHA '88), and Aditya Didolkar (BS '07 and MBA/MPSRE '16).



Figure 2. Richard Baker (SHA '88) moderates the CEO’s Check-In.

where location is the most important factor so that Link is well-positioned in the “last mile” delivery competition. Additionally, Harris cited how his industry has really set out on a path of its own, having disconnected its correlation to the overall economy around 10 years ago, mainly due to the massive growth in e-commerce.

Yearley, Chairman & CEO of Toll Brothers, provided perspective from the residential industry’s point of view. Demographic trends, whether that is the growth of active-adult baby boomers or first-time home-buying millennials, affect what and where the company is building. The “smile states,” from California to the Carolinas, are where Yearley sees most of the residential growth taking place over the next several years. Toll Brothers is striving to create homes and spaces in these states, citing connectivity as the number one desire for their home buyers.



Figure 3. From left to right: Owen Thomas, Don Wood, Ben Harris, and Doug Yearley (A&S '82).

Baker then steered the conversation towards innovation and asked each panelist to identify the biggest innovations their companies are currently undertaking. In addition to placemaking and property technology, Thomas first noted the downtown evolution and its effect on office space as having transformed Boston Properties’ development locations. Boston Properties has seen premiums in selling or renting office space in buildings it has elected to “freshen up.” Some of these decisions have been influenced by the growth of PropTech and its ability to identify densities, traffic counts, and what is going on inside the building in real time. Wood wholeheartedly agreed that placemaking could exponentially impact the attractiveness of a retail center as well, citing a 15-25% rent premium in desirable centers with high-level amenities. Although similar amenities may not matter as much in the industrial sector, design innovations are taking place. The movement towards multi-story warehouses is an effort to capture increasing demand and rents, as well as truck movement efficiency. These are the leading innovative trends that Link Industrial is seeing, according to Harris. Meanwhile, according to Yearley, Toll Brothers’ design innovations are influenced by consumers’ desires for modern, casual, open floor plans that complement their connected locations, which is a completely different home model than what was desired 15 or 20 years ago.

Following Yearley’s comments, Baker turned the discussion to a new term that seems to have attracted attention within the industry: “Hipsturbia.” With everyone talking about the



Figure 4. From left to right: Ben Harris and Doug Yearley (A&S '82).

evolution, revitalization, and movement back into America's downtowns, are we on the verge of a movement back to the suburbs at some point in the future? All four panelists agreed that suburbs are not dead, the "American Dream" is still alive and well, and suburbs are actually thriving in cities like Nashville, Dallas, and Phoenix. While connectivity is still key, Yearley remarked that many people are still leaving cities when their kids reach kindergarten age – as they want the big house, the big yard, the good schools, and the prime zip code – all of which are found in the suburbs. To support this fact, Yearley cited data that confirms that premiums for new homes are higher than they have ever been versus existing homes, meaning that companies like Toll Brothers are still building, and consumers are still buying, in the suburbs at a high rate.



Figure 6. From left to right: Zac Schwarzman and Judah Siegel.

Baker concluded the panel with a synopsis of the discussion, identifying his key takeaways. The concentrated location of new jobs and new job growth, the demographic movements, and placemaking maintained a constant theme in the hour-long conversation amongst the CEOs. What was most evident to Baker, and likely members of the audience as well, was the fact that commercial real estate continues to be a fantastic, creative, and thriving industry in which to work.

PANEL 2: PROPTech - THE NEW BUZZWORD

By Samyak Jain

The Cornell Real Estate Council was pleased to welcome leading investors in real estate technology ("PropTech") to the Cornell Real Estate Conference. The esteemed panel gave valuable insights into the exciting world of PropTech and the changing real estate environment in light of the ever-growing pervasiveness of technology in business. The panel, which was moderated by Zak Schwarzman, Partner, MetaProp, included Brad Greiwe, Co-Founder & Managing Partner, Fifth Wall; Andrea Jang (MMH '09), COO, Ackman-Ziff; and Judah Siegel, Vice President, Brookfield Ventures.

The panel began with a discussion on the panelists' interpretation of PropTech and what the word has meant for their investment firms. While the interpretation varied for

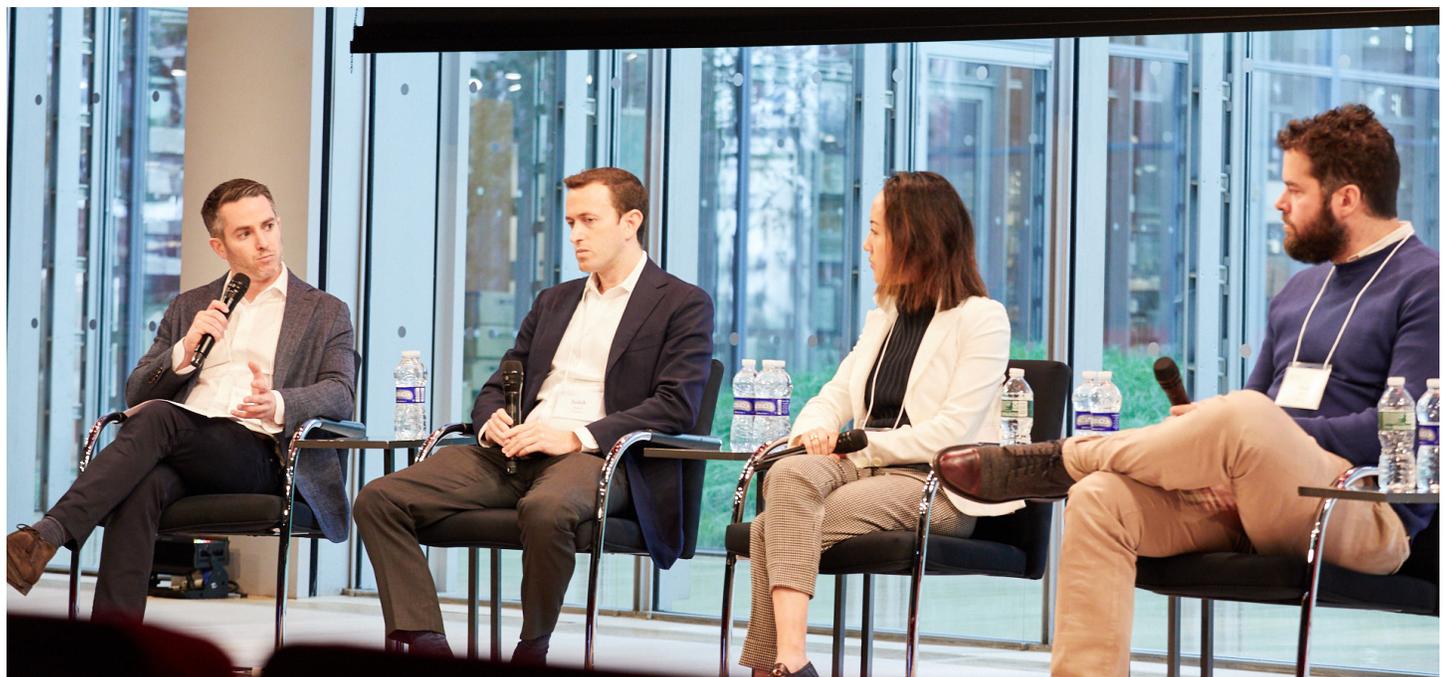


Figure 5. From left to right: Zac Schwarzman, Judah Siegel, Andrea Jang (MMH '09), and Brad Greiwe.

each panelist, all of them had the same broad understanding – adoption of technology in the built world. One panelist noted that though real estate is one of the largest asset classes, its adoption of technology has historically been very slow. However, this panelist is now seeing an active effort by some real estate leaders to adopt and implement technology in their businesses. Another panelist remarked that since PropTech is still in its nascent stages, real estate industry leaders should utilize this opportunity to back innovators in the space and treat that as research and development.

When posed the question about the response and mindset of traditional real estate companies to technology adoption and innovation, the panelists believed that in the last five years, there definitely has been a positive change and increasing willingness to adopt technology by the players in the industry. Industry leaders have taken the initiative to introduce verticals dedicated to PropTech and hire executives with a tech background to lead these verticals. Technology is becoming an increasingly important part of people’s lives and property managers are viewing technology from a more holistic perspective. One panelist noted that while things are changing for the positive, it is still a long road ahead. Change will take time and will be a slow process as most companies are still not willing to allocate capital to, or do not have the organizational capability to adopt and invest

in, technology. Investors who are investing in the PropTech space should also look for quick wins that will provide returns in the short-term. This will help in establishing a proof of concept for the sector and will help drive the capital and support essential to the growth of the sector.

Discussion of a few case studies from the panelists’ investments gave valuable insights on the possibilities of the confluence of tech and real estate. The case studies discussed were VTS – a leasing and asset management platform that gives real time updates to the users of the platform, Opendoor – a platform offering an instant quote on a home value, Jones – a platform automating the certificates of insurance for vendors, and Dealpath – a collaborative platform for real estate acquisitions. Driving synergies between portfolio companies also helps in promoting cross business and overall optimization.

The panel finished by remarking that it is an interesting time for real estate as it is on the cusp of innovation. For young people looking to begin their careers in real estate, they should focus on developing skills in data science/tech as well as real estate. An intersection of these skills would be in great demand in the near future and will be beneficial to job seekers. The panel also sought the collective participation of owners, operators and managers of real estate to further tech innovation and adoption in the industry.



Figure 7. From left to right: Guy Geller (A&S '98), Billy Butcher, Adam Kaplan (SHA '04), Mark Alexander, and Seth Singerman (SHA '99).

PANEL 3: THE SILVER TSUNAMI

By Ryan Meiser

An afternoon panel at the Cornell Real Estate Conference moderated by Seth Singerman (Singerman Real Estate) offered an insightful discussion about the senior housing market and the prospect of new developments in the space. Singerman was joined by Mark Alexander (Atria Senior Living), Billy Butcher (KKR), Guy Geller (Grace Management), and Adam Kaplan (Solera Senior Living).

“The Silver Tsunami” refers to the soon-expected wave of seniors maturing from the Baby Boomer generation. This demographic group makes up about a quarter of the population in the United States now with nearly 79 million people. As these people prepare for retirement, the commercial real estate industry seeks to capitalize on the unique demographic shift by preparing to supply the inevitable need for senior housing. But in what form is this housing going to take shape, and how will real estate professionals differentiate their properties? The panelists shared some ideas, but one theme seemed to prevail: For senior housing, lessons must be taken from the hospitality industry.

First, Singerman asked the panel about why now is the time to focus on senior housing. The more recent market conditions in this asset class have shown that there was, in fact, a supply glut and related decline in senior occupancy. Singerman hinted that this information may counter the notion that additional senior living facilities are even necessary. Butcher responded first, stating that KKR’s bet on the demand for senior housing is expected to crop up about eight to ten years out. The others on the panel certainly agreed that, while a recent oversupply has made the asset class less appealing, the demographics of an aging population are unavoidable. The Baby Boomers will need



Figure 8. From left to right: Guy Geller (A&S ‘98) and Billy Butcher.

senior living facilities. It must be noted here that this is a bet on time and that time is arguably the only constant in any market. So then, where is the variability? Butcher specified three variables: (1) The operator – referring to the standards of quality implemented by the property managers, (2) the future supply – when and how new senior housing will be delivered, and (3) the value – the culture of the community including residents and staff. Alexander, Geller, and Kaplan were affirmative regarding these notions, particularly given the aging demographics. The U.S. Census report projects that an average of 404,000 people will be aging between 80 and 84 on a yearly basis from 2020 to 2030.

Kaplan highlighted the necessity for high quality design and hospitality services that continued to arise throughout the discussion. Think for a minute about the unique housing demands for a senior citizen. This demographic has a high rate of medical needs, accessibility is mandatory, and retirement has increased its reliance on a sense of community. All of these needs lead to an operations-intensive property business model. When Singerman asked the panel about trends in the senior housing industry, the discussion began to closely resemble what one might expect from the hospitality industry. Both Geller and Kaplan expressed an increasing need for strong operations teams at the property management level. That, however, brings some difficulty because attracting and retaining good talent often means paying higher salaries. While these higher salaries are certainly warranted, they must be funded by increases in rental prices. Increases in rental prices are difficult in senior housing facilities for two primary reasons: (1) many of the tenants are living on fixed incomes, and (2) these tenants tend to hold their leases by staying put for long periods of time.

The senior housing industry is going to face a unique increase in demand that heralds an abundance of market opportunities for developers, investors, and managers. However, it is not without hurdles. It seems that the most successful businesses in this space will be able to differentiate themselves by various means. The best senior living properties will need to be managed like hotels with considerable resources allocated to care for the resident community. This includes access to medical assistance as well as to amenities that encourage gathering, health, and general wellbeing. These tenants are elderly people who will likely be moving into these properties from local neighborhoods. They may also have families with grandchildren nearby that will come to visit

so accommodation for these guests would probably be a benefit that sets one property apart from the others. In fact, the panel discussion highlighted that many tenants lived approximately 30 minutes away from their senior housing facilities before moving in.

There is a unique opportunity in providing housing to folks who are, actuarially speaking, at the final stages of their lives. Proper care and spatial synergy must be considered when creating and managing a property for these individuals. These trends in experience-based design are emerging across all types of real estate assets. In the senior living space, it has become clear that the demand it set to increase, and the operational strategies will be challenging but will create significant opportunity for developers and property managers to deliver unique senior housing facilities to the market.

PANEL 4: PLACEMAKING

By Parth Patel

Placemaking was part of many conversations throughout the conference. In fact, there was a panel specifically dedicated to placemaking helmed by esteemed industry

guests Ben Bernstein, Co-founder and Principal of Redsky Capital; Adam Flatto, President and CEO of The Georgetown Company; MaryAnne Gilmartin, Co-founder and CEO of L&L MAG; and Saul Scherl, New York Tri-State Region President of Howard Hughes Corporation. The panel was moderated by Alan Tantleff, Senior Managing Director of FTI. As the group kicked off its discussion, each panelist revealed their visions for the future in the context of their past experiences with placemaking.

Gilmartin launched L&L MAG two years ago to develop ground-up projects of scale in New York City that not only deliver value to investors but also add value for the surrounding community. Gilmartin wants to do that with a diverse team that resembles the city and neighborhoods where her projects are located. Prior to Gilmartin's founding of L&L MAG, she played a pivotal role in many of the significant projects at Forest City Ratner Companies during her 15-year tenure at the firm, including The New York Times Building, the venue for this conference. Gilmartin specifically highlighted the development of The New York Times Building to showcase how a successful project can act as a catalyst that transforms a neighborhood in a positive way. Gilmartin also touted the fact that most people would



Figure 9. From left to right: Ben Bernstein (A&S '06), Saul Scherl, Adam Flatto, MaryAnne Gilmartin, and Alan Tantleff (SHA '87).

not have believed that a building in that location would have commanded \$100 per SF at the time it was being proposed but that it is possible to create a marketplace when you take the time to understand your tenants' needs.

Flatto's focus remains on creating neighborhoods from scratch around the country in line with The Georgetown Company's track record. Over the span of more than a decade, The Georgetown Company has created a very successful "mixed-use town center" called Easton in the northwest corridor of the Columbus, Ohio, metropolis. This large-scale development attracts businesses from across central Ohio and largely functions as an independent town. A total of more than 9.5 million square feet of mixed-use development has been completed to date at the Easton project, including retail, office, hotel and residential properties. Earlier in the year, The Georgetown Company announced that it wants to add an additional 350,000 square feet of Class-A office space to couple with its successful retail and residential development so that it can create a "Live, Work, Play" neighborhood.

Scherl of Howard Hughes Corporation has an individualized strategy that is specific to each of the assets that his firm inherited from the bankruptcy workout of GGP, owner and operator of shopping malls, during the Great Recession. During the restructuring of GGP, all non-core assets on GGP's balance sheet were spun off as a new company that became known as the Howard Hughes Corporation. Due to the nature of Howard Hughes' founding, the company is comprised of a mixed pool of assets that each require a different strategy to unlock the true potential of the portfolio. For example, its Downtown Columbia project in Maryland is a master planned development of an "entire town" comprising 2,300 residences, a 250-room hotel, 1.5 million square feet of Class-A office space, and 314,000 square feet of street-level retail. By contrast, the primary focus of its New York Seaport project is an experiential and destination retail experience. To attract shoppers to the Seaport's 450,000 square feet of retail space, Scherl's team has gone to great lengths, including attracting top restaurants and installing a new concert venue.

Finally, Bernstein of Redsky Capital remains committed to his first love, street-level retail. As Bernstein put it, he started his company in 2006 right as he graduated (from Cornell) because he believed that residents of Brooklyn who were paying ultra-high prices for apartments should have more than just a "liquor shop, nail salon, and photo



Figure 10. From left to right: Ben Bernstein (A&S '06) and Saul Scherl.

shops." Redsky now owns and operates more than two billion dollars' worth of real estate and Bernstein remains committed to his qualitative in lieu of quantitative approach. Bernstein emphasized that his investments in both Brooklyn and Williamsburg have benefited by looking beyond an immediate opportunity to maximize proformas. According to Bernstein when you treat retail space as an amenity, you can elevate the surrounding buildings and neighborhood.

Tantleff later asked the group to define the word "placemaking," which quickly revealed that each panelist had a slightly different notion of what constituted placemaking. The discussion revealed that placemaking does not have to be uniform, but that it should be a specific and individualized effort that is designed for the neighborhood where the project is located. One panelist also shared that you will just know that the development was truly special and worthy of being labeled as a "placemaking development" once the project is done and its impact is palpable.

Despite all the complexities and wide range of perspectives, the panelists shared two key lessons that all developers can employ as they think about good development. The first is that it is not only important but also beneficial to involve the community during the development process, and the second is that it is best to consider the entire project or neighborhood cohesively instead of compartmentalizing spaces by use.

When it comes to community involvement Gilmartin shared that each community and neighborhood will be different. Gilmartin continued that when you involve the community early in the process, you gain deeper understanding of the neighborhood where the project is located. Furthermore, you can parse out the true opinions and concerns relating to the project from the ones that are simply the loudest. Gilmartin specifically cited her projects in Brooklyn that

seemed controversial even though she had overwhelmingly large support of the community because a small group had utilized social media to amplify its criticisms. Scherl also cited an interesting example that by engaging with the community surrounding the Seaport project he realized that the community was irked by the simple omission of the word “historic” from “Seaport Historic District.” This simple change would go a long way in winning over the community.

The second lesson evident throughout the conversation was that developers often make the mistake of compartmentalizing or neglecting the first floor of the building. Gilmartin cited how much thought they put into creating a lobby in The New York Times Building and that it is often an overlooked amenity that can kill the commercial space above. Gilmartin then generalized this notion by concluding that retail space is not meant for maximizing the proforma, but that it is an amenity that, if used correctly, would create higher rents throughout the building. Bernstein echoed Gilmartin’s sentiment and stated that the same

idea can be applied at the neighborhood level. Bernstein emphasized that if you are willing to acquire the best retail tenants to meet the needs of the neighborhood, and not just the ones willing to pay the highest rents, then you can create even more value in all of the surrounding assets than previously possible. Bernstein shared that it is important to find equity partners who would support this process of creating value at the neighborhood level and not just ones who are focused on immediately monetizing the assets by acquiring tenants willing to pay the highest rents. Too often the focus is on highest and best use for the specific retail location or space in the building.

During the concluding remarks, each of the panelists echoed that they approach their role of placemaker with a great deal of responsibility as they toe the line between bringing new development to a neighborhood and preserving the authenticity of the neighborhood and of the surrounding community.



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SAVE THE DATE

38th Annual Cornell Real Estate Conference

Friday, October 23, 2020
The Times Center, New York City

An evening reception will be held on
Thursday, October 22, 2020
Cedric’s at the Shed, Hudson Yards

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